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A STUDY OF SELECTED PRIVATE PENSION PLANS
WITHIN THE RETAIL FOOD INDUSTRY

By

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B.A., East Carolina University, 1964

Presented in partial fulfillment of the requirements for the
degree of

Master of Business Administration

UNIVERSITY OF MONTANA

1973

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May 31, 1973
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ACKNOWLEDGEMENTS

I am indebted to Mr. Francis J. Raucchi of Buttrey Foods, Great Falls, Montana, for his sincere interest and assistance in developing this paper. Appreciation is also extended to Mr. Robert Gies of Northwest Administrators, Seattle, Washington, for his support.

The scholarly assistance given by Dr. Donald C. Guy, my advisor, is gratefully acknowledged. A special thanks is also due the AFIT Librarian, Mrs. Virginia Gilmore, and Mrs. Bobbie Smith, my typist, for their assistance.

Appreciation is also expressed to the United States Air Force for the opportunity to pursue the M.B.A. degree and complete this paper.

I extend my deepest gratitude to my wife, Linda, and my children for their patience and support in this endeavor.

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CHAPTER I

INTRODUCTION

Research Objectives

The primary objectives of this study are (1) a determination of the major provisions and benefits of selected private pension plans covering employees within the retail food industry, (2) an analysis of the development and growth of these plans in terms of employee participation and fund growth, and (3) to consider possible implications of proposed Federal legislation on current plan structure and operation.

Development and Growth

To establish a proper base for this study, it is appropriate to first define a private pension plan and look at the development and growth of such plans in this country.

What is a private pension plan? It is a plan established unilaterally by a private industry employer or union, or jointly by both, "primarily to provide systematically for the payment of definitely determinable benefits to employees

for a period of years, usually for life, after a specified age."¹

From its inception, the organized labor movement in the United States has continued to strive, through strikes and collective bargaining, for higher wages, a shorter work week, improved working conditions, and a general upgrading of the status of the American worker. Through such mediums, possibly coupled with management's gradual realization that workers are more than mere tools of production, the status of the employee has steadily improved. So too has the status of the retired worker gradually improved. Although every individual has the primary responsibility for his own welfare in the later years of life, the role of government and private industry in this area has increased dramatically over the years. Federal Social Security legislation has developed to provide ever-increasing basic minimum benefits. Private industry's most noted contribution has probably been the development of the private pension plan. With the assured incomes from Social Security and a private pension plan, coupled with whatever personal savings the employee can accrue during his productive years, many American workers of today can hopefully look forward to a comfortable and dignified existence upon retirement.

¹Robert S. Holzeman, Guide to Pension and Profit Sharing Plans (Lynnbroom, New York: Farnsworth Publishing Co., Inc., 1969), p. 1.

The rapid growth of private pension plans began in the early 1940s and continues, unabated, today. There is no legal requirement for an employer to establish a private pension plan for his workers. But the growth of such plans was greatly promoted when the United States Supreme Court, in 1949, upheld a lower court decision that a pension was a negotiable issue under the collective bargaining laws.²

Although the basic reason for the installation of a private pension plan by an employer is that it will meet the problem of the superannuated worker, reduce turnover, and generally improve the operation of the business, social philosophy and, more recently, union pressure have been appreciable forces in the development and growth of private pension plans.³

A growing proportion of employee benefits contained in union contracts today are in the form of pensions, insurance, and other "fringes." In 1971, for example, "fringes" accounted for 30.8 per cent of the average firm's payroll expenses, an increase of 5.9 per cent from 1961.⁴

Private pension plans can be beneficial to the employer as well as his employees. For the employee, as noted previously, the pension plan enables him to look ahead to a stable retirement based on the expectations of a fixed pension income to supplement his Social Security payments. For

²Inland Steel Co. v. NLRB, 336 U.S. 960 (1949), 24 LRRM 2019 (7th Cir. 1948).

³Kenneth Black, Jr., Group Annuities (Philadelphia: University of Pennsylvania Press, 1965), p. 3.

⁴"Changing Pattern of Pay: More and More Fringes," U.S. News and World Report, August 28, 1972, p. 48.

the employer, the establishment of a pension plan can possibly be viewed as the acceptance of a highly respected social responsibility of helping to provide for the well-being of his employees when they reach so-called "senior citizen" status. Thus, the public image of the firm might be enhanced. Further, employers are permitted to deduct their contributions to private pension funds as a business expense for Federal income tax purposes. In addition, profits accruing from invested assets of the fund are not taxable. These tax provision benefits for all private pension plans combined were estimated by the Treasury Department at \$3.6 billion in fiscal year 1972, alone.⁵

In 1972, over 30 million workers were participating in some 34,000 private pension plans.⁶ Assets of these plans were in excess of \$152 billion. The growth of private pension plans is depicted in Table 1.

More and more today, American workers are viewing pensions as a right rather than a privilege granted by an employer for long and faithful service. Yet, nearly one half of the work force still does not participate in any private pension program. And of those who are participants, many will never collect retirement income from the plan

⁵Congressional Quarterly Weekly Report (Washington, D.C.: Congressional Quarterly, Inc., Vol. XXX, 1972), 847.

⁶Ibid.

because they will quit, be laid off, or move to new employment before their rights to receipt of a pension have been established under the provisions of the particular plan.⁷

TABLE 1
GROWTH OF PRIVATE PENSION PLANS, 1940-1980

Year	Employees Covered (millions)	Assets (billions)
1940	4.1	\$ 2.4
1950	9.8	12.8
1960	21.2	52.0
1970	30.0	128.6
1980	42.3 ^a	250.0 ^a

^aprojected growth

As private pension plans and their assets continue to grow, so too has Congressional interest grown in obtaining stronger legislative control over these programs. Currently, private pension plans are subject to very few laws or rulings. The Federal Welfare and Pension Plan Disclosure Act of 1958, which requires the reporting of the specific provisions and operations of the plans, is the only Federal law specifically directed at private pension plans. These plans must also meet certain Internal Revenue Service Rulings in order for employer contributions to be treated

⁷Ibid.

as a business expense for tax purposes. A number of bills are pending in Congress which aim at private pension plan reforms in several basic areas, and in some cases seek to specify minimum standard provisions for all such plans.

Scope and Limitations

This research study was primarily concerned with the development and current status of private pension plans covering employees within the retail food industry. This paper considers private pension plans which are (1) jointly-trusted and (2) multiemployer, and does not consider profit sharing plans as pension plans.

A jointly-trusted plan is one which is administered jointly by union and management. An equal number of trustees of both parties establish the provisions of the plan, and enter into a trust agreement specifying the terms of plan administration. The trustees are further responsible for establishing and maintaining a trust fund into which employer contributions and earnings from their investment are held.

Based on a 1969 study, multiemployer plans were found to be the most prevalent in non-manufacturing industries, such as wholesale and retail trade, construction, and services, where more than half of the pension plan participants were covered under multiemployer plans. In manufacturing

industries, only about one in eight active participants were covered by multiemployer plans.⁸

The employee force of the retail food industry is comprised basically of four types of union workers: bakers, meatcutters, retail clerks, and teamsters. The teamster workers consist of warehousemen and truck drivers. Employee turnover of clerks and warehousemen within the industry is relatively high. The other type workers are either skilled or semi-skilled employees and are more likely to remain covered by a pension plan long enough to obtain their full benefits upon retirement.

To further limit the scope of this paper, this study considered two multiemployer, jointly-trusteed private pension plans covering employees within the retail food industry. These plans are the Intermountain Retail Food Industry Pension Plan, negotiated between Amalgamated Meat Cutters and Butcher Workmen of North America locals and participating employers in seven western states, and the Western Conference of Teamsters Pension Plan, negotiated between local unions of the Western Conference of Teamsters and participating employers in eleven western states. These plans were not selected as typical or as samples of all such private pension plans within the retail food industry, but

⁸Harry E. Davis and Arnold Strasser, "Private Pension Plans, 1960 to 1969 - an Overview," Monthly Labor Review, July, 1970, p. 47.

are models that are probably roughly reflective of other private pension plans covering the same types of employees within that industry in terms of growth and major plan provisions.

The Western Conference of Teamsters Pension Plan, established in 1955, is the older of the two plans. The Intermountain Retail Food Industry Pension Plan became effective in 1966. These regional plans were established to provide an alternative to nationwide plans. This regional concept provides more direct involvement in and control over the plans by participating labor and management than would be possible with a national plan. Figure 1 shows those states which the two plans currently cover.

The major provisions of the plans as pertains to eligibility for participation and pension receipt, and the formulas used to determine these provisions are discussed in Chapter II.

CHAPTER II

MAJOR PROVISIONS OF THE PLAN

Requirements for Participation

To be eligible for coverage under either the Intermountain Retail Food Industry Pension Plan or the Western Conference of Teamsters Pension Plan, a person must first be employed under a collective bargaining agreement, negotiated between his employer and respective local union, in which participation in the pension plan is stipulated. The employee becomes covered under the provisions of the plan when the first employer contribution on behalf of the employee is made to the plan's trust fund. An employee remains an active participant of the plan so long as he meets the minimum yearly covered hours required. A covered hour is each hour of employment for which the employer pays a contribution into the trust fund. The hours of work for which a contribution must be made are defined in the collective bargaining agreements.

Participation is considered to be terminated in the Intermountain Retail Food Industry Pension Plan, hereinafter referred to as the Intermountain Plan, if an employee

has failed to accumulate, at the end of any two consecutive years, at least 350 covered hours of employment in each of the two years.⁹

The Western Conference of Teamsters Pension Plan, hereinafter referred to as the Western Conference Plan, considers an employee terminated from the plan if he fails to obtain 600 covered hours in a specified period. This specified period is three years if the employee has previously accumulated at least 7,500 covered hours, and two years if less than 7,500 covered hours.¹⁰

Requirements for Pension Receipt

Although an employee is an active participant in a pension plan--that is, his employer is making monthly contributions into a trust fund on the employee's behalf--this, in itself, is no guarantee that he will receive any pension benefits. The employee must meet certain age and service requirements in order to be eligible to receive these benefits.

Service Requirements

Service requirements of both plans are based on a combination of credit for past service and future service.

⁹"The Pension Plan of the Intermountain Retail Food Industry Pension Trust Fund," October 1, 1966, p. 34.

¹⁰"The Western Conference of Teamster Pension Plan," August 1, 1972, p. 2.

Under the Intermountain Plan, past service is the period of continuous service by an employee immediately prior to either October 1, 1966 (the effective date of the plan), or the date his employer becomes a contributor to the trust fund. An employee is eligible to receive up to 20 years of credited past service, which may be determined by either of the following two methods, but not a combination of the two:

1. Past membership in a local union now participating in the plan. To receive past service credit, the membership must have been continuous. If the employee dropped his union membership for a period of 12 consecutive months, continuous service has been broken, and all past service credit to that point would be lost.

2. Service rendered to the industry. Here, too, service must have been continuous. A break in service would occur if the employee had less than 350 hours of employment in any one-year period.¹¹

With either method, the employee receives one year of past service credit for each year of continuous past service.

In determining future service credits, the Intermountain Plan participant earns one year of credit for each year in which he has at least 350 hours of covered employment.¹²

¹¹"Pension Plan of Intermountain Trust Fund," p. 32.

¹²Ibid., p. 31.

An employee has met the service requirements for retirement benefits under the Intermountain Plan when he has completed 10 years of credited service, at least one year of which must be credited future service. This plan liberalized the service requirements for early retirement and disability retirement in October, 1972.¹³ Previously, 15 years of credited service was required.

The Western Conference Plan's service requirements are determined somewhat differently. Employees under this plan receive one year of credit for each year of past employment, up to a maximum of 18 1/3 years. Past service credit is based on a combination of past service with the present employer prior to the effective date the employee became covered by the plan and also periods worked, after the age of 30, in a Western Conference of Teamsters bargaining unit. This past service must have been continuous. A break in past service would occur if the employee worked less than 600 hours in any two-year period for his present employer or was out of work for a Teamster bargaining unit for a period greater than 10 months. Any break in service would result in a loss of all past credit to that point. Future service credits are based on one year of credit for each 1,875 covered hours of employment. These service requirements

¹³Intermountain Retail Food Industry Pension Trust Fund, Minutes of Meeting of the Trustees, Meeting in Great Falls, Montana, October 17, 1972. (Mimeographed.)

further differ from the Intermountain Plan in that the maximum number of years credit, past and future combined, for determining benefit amounts is 25 years.¹⁴

Age Requirements

Normal retirement under the Intermountain Plan is at age 65. If an employee has completed 10 years of credited service by age 65, he is eligible to begin receiving his monthly pension benefits. Provision is made in the plan to permit an employee to work beyond age 65 and continue to earn service credits until such time as he has completed the necessary 10 years of credited service. Early retirement and disability retirement can begin as early as age 55, provided the minimum 10 year service requirement has been met.¹⁵

For normal retirement under the Western Conference Plan at age 65, an employee must have been with the plan for at least two years and have had at least 600 covered hours of employment during a period of at least two consecutive calendar years. This plan also provides for retirement as early as age 55, provided the employee has accumulated at least 15 years of unbroken service and 3,000 covered hours

¹⁴"Western Conference Pension Plan," pp. 2-3.

¹⁵"Pension Plan of Intermountain Trust Fund," pp. 27-28.

of employment.¹⁶ Prior to 1967, the minimum for early retirement was age 60.¹⁷

Vesting

Vesting is the irrevocable right of an employee covered by a private pension plan to receive his earned benefits, usually at normal retirement age, even though he may have left the scope of the plan before that point. An employee normally becomes "vested" upon meeting certain minimum age or service requirements, or both, of the plan. In general, the vesting provision of a private pension plan takes one of the following approaches:

1. Immediate full vesting--whereby the benefit rights are vested as they are earned.
2. Deferred full vesting--whereby vesting is postponed until the employee has met the necessary age, service, or other requirements stipulated in the plan.
3. Deferred graded vesting--whereby an employee becomes partially vested when he has met the minimum requirements. As additional requirements are met, the employee becomes eligible to receive a greater percentage of his earned credits. Eventually his accrued benefits become fully vested.¹⁸

¹⁶"Western Conference Pension Plan," p. 3.

¹⁷The Western Conference of Teamsters Pension Trust Fund, The Western Conference of Teamsters Pension Trust Fund Annual Report (Seattle: Office of the Administrator, 1967), p. 1.

¹⁸Donald M. Landley and Harry E. Davis, "Growth and Vesting Changes in Private Pension Plans," Monthly Labor Review, May, 1968, p. 32.

The Intermountain Plan provides for deferred full vesting. If an employee has met the requirement of 10 years of credited service, one year of which must be credited future service, the employee can terminate his participation in the plan and, at normal retirement age, begin receiving the pension benefits he had accrued up to the point of termination from the plan.¹⁹ Prior to October, 1972, 15 years of credit service was required to become vested.²⁰

The Western Conference Plan utilizes the deferred graded vesting method. If an employee has accumulated 15 years of unbroken service and 3,000 covered hours of employment, he has met the minimum requirements for vesting and thus becomes partially vested. The employee's age at termination determines the percentage of the accrued benefits he will be eligible to receive. Payment of vested retirement benefits under this plan normally begins at age 65. If desired, the employee can begin receiving the payments as early as age 60, but must accept a reduced payment.²¹

¹⁹"Pension Plan of Intermountain Trust Fund," p. 34.

²⁰Minutes of Meeting of the Trustees, October 17, 1972.

²¹"Western Conference Pension Plan," pp. 12-13.

Reciprocity

In most private pension plans today, there is no provision made for the transfer, or "portability", of an employee's pension rights if he moves to employment outside the coverage of the plan. Typically, if the employee transfers to a firm which is not a party to the pension plan, all benefits which are not vested at the time of termination are lost.²²

The Intermountain Plan provides for a modified version of portability by permitting the trustees to enter into "reciprocity" agreements with other pension plans in order to protect the credits of employees transferring between the plans.²³ Reciprocity results in a transfer of the employee's credited service time, and not an actual transfer of fund assets as would be the case with portability. Currently, this plan maintains reciprocity agreements with plans in Colorado, Washington, and northern California only, which rather hampers the mobility of employees under the plan.

Reciprocity is also provided for in the Western Conference Plan and is much broader in scope. In 1967, the trustees established reciprocity agreements with Teamster plans covering the central states, southeast and southwest

²²Patrick J. Davey and Mitchell Meyer, "More Regulation for Pension Funds?," The Conference Board Record, July, 1972, p. 15.

²³"Pension Plan of the Intermountain Trust Fund," p. 37.

areas.²⁴ These agreements enable extensive mobility of employees between the various plans without any loss of accumulated credited service. In addition to reciprocity, the Western Conference Plan also contains a "transferability" provision by which an employee remains covered by the plan and retains built-up credits toward retirement if he goes to work for a non-contributing employer who has a collective bargaining agreement with the Western Conference of Teamsters. However, to preclude termination from the plan, the employee must return to employment with a participating employer for at least 600 hours in any two-year period.²⁵

Both plans also contain provisions for survivor benefits under various conditions. However, these provisions are not considered major and are therefore excluded from this chapter.

Thus far, the major provisions of the plans which establish an employee's eligibility for coverage and pension receipt have been discussed. Attention will now turn to the formulas employed in determining the actual benefits to be paid under these plans.

²⁴The Western Conference of Teamsters Pension Trust Fund, Annual Report, 1967, p. 1.

²⁵"Western Conference Pension Plan," p. 13.

Benefit Formulas

This section will first consider benefit formulas of the Intermountain Plan and then the Western Conference Plan. Several sample illustrations of the application of these formulas are given in the Appendix.

The normal retirement benefit of the Intermountain Plan is a monthly payment of \$4.25 for each year of past service credit accumulated, to which is added 2.30 per cent of the employer's contribution amount that has been paid into the trust fund on the employee's behalf.²⁶

If an employee under the Intermountain Plan chooses to retire prior to age 65, his monthly pension benefit as computed above is reduced by one-half of 1 per cent for each month that his early retirement date preceeds what would have been his normal retirement date. Thus, the employee opts for a lesser monthly pension spread out presumably over a greater number of years. If an employee retires early due to total and permanent disability, the monthly benefit is computed in this same manner.²⁷

The usual method of retirement pension payment is a straight monthly income from date of retirement until death of the employee. However, the Intermountain Plan

²⁶"Pension Plan of Intermountain Trust Fund," pp. 28-29.

²⁷Ibid., p. 29.

provides two optional forms of retirement benefit receipt which a participant may select from prior to retirement. One form, the "Contingent Annuitant Benefit Option," provides the retired employee with an actuarially reduced payment during his lifetime, with the same payment amount continuing during the life of the spouse should the spouse survive the retired employee. The second option, the "Modified Contingent Annuitant," pays a somewhat larger amount to the retired employee than would be payable under the first option, followed by a smaller payment to the surviving spouse.²⁸

The formula for payment of benefits to an employee who has achieved the minimum vesting requirements of the Intermountain Plan and then leaves plan coverage is the same formula as is used for normal retirement benefits. For each year of past service credit, the former participant receives \$4.25 per month, plus 2.30 per cent of the total employer contributions made on behalf of the employee prior to his termination from the plan. These monthly payments would begin when the employee reaches age 65.

The benefit formulas of the Intermountain Plan have remained static since the plan began in 1966. Improvements to these formulas have been tentatively approved by the

²⁸Ibid., p. 30.

trustees of the plan and are expected to be in effect by the end of 1973. Among the changes are (1) an increase in payments for each year of past service from \$4.25 to \$4.50 per month, (2) an increase from 2.30 per cent to 2.70 per cent per month of the employer's contribution, and (3) a reduction in the early retirement penalty from one-half to one-fourth of 1 per cent for each month that the early retirement date preceeds the normal retirement date.²⁹

The monthly age retirement benefits under the Western Conference Plan are based on a specified amount of money for each year of credited service. This specified amount is dependent upon the employer's contribution rate. In general, the contribution rate in effect at the date of retirement would apply. Table 2 illustrates the scale of retirement benefits for employees retiring at age 65.

If an employee under the Western Conference Plan elects early retirement, the benefits computed from Table 2 are multiplied by an early retirement factor which results in reduced monthly payments. These reduction factors are shown in Table 3. If retirement prior to age 65 was under the provisions for total and permanent disability, the reduction factor would not apply and the disability retirement benefit would be computed directly from Table 2.

²⁹Francis J. Raucci, interview with Trustee, Great Falls, Montana, March, 1973.

TABLE 2^a

AGE RETIREMENT BENEFIT SCALE WESTERN CONFERENCE
OF TEAMSTERS PENSION PLAN

Benefit Contribution Rate	Monthly Age Retirement Benefit	
	For Each Year of Credit	Maximum Benefit
\$.10	\$ 4.00	\$100.00
.15	6.00	150.00
.20	7.20	180.00
.25	8.86	221.50
.30	10.52	263.00
.35	12.81	304.50
.40	13.84	346.00
.45	15.50	387.50
.50	17.16	429.00
.55	18.82	470.50
.60	20.48	512.00
.65	22.14	553.50

^a"Western Conference Pension Plan," p. 4.

For an employee whose coverage under the Western Conference Plan is terminated prior to reaching retirement age, a termination benefit is payable if the employee has acquired minimum vesting of 15 years unbroken service and 3,000 covered hours of employment. The plan specifies a cash benefit payment if the employee terminates prior to age 45. If termination occurs at age 45 or later, the employee may select either a cash payment at time of termination or a vested retirement benefit with payments beginning at age 65.

The cash benefit payment is a lump sum payment equal to 30 per cent of the employer's contributions paid into the trust fund on behalf of the employee, subject to a maximum limit as shown in Table 4.³⁰

TABLE 3^a
EARLY RETIREMENT FACTORS WESTERN CONFERENCE
OF TEAMSTERS PENSION PLAN

Age at Retirement	Early Retirement Factor ^b	
	Table A	Table B
64	100.0 %	92.8 %
63	100.0	85.6
62	100.0	78.4
61	92.8	71.2
60	85.6	64.0
59	78.4	56.8
58	71.2	49.6
57	64.0	42.4
56	59.2	35.2
55	54.4	28.0

^a"Western Conference Pension Plan," p. 4.

^bIf employee had 3,000 or more covered hours in the 16 calendar quarters immediately prior to retirement, the Table A factor applies. Otherwise, Table B applies.

³⁰"Western Conference Pension Plan," pp. 11-12.

TABLE 4^a
 MAXIMUM CASH TERMINATION BENEFITS WESTERN
 CONFERENCE OF TEAMSTERS PENSION PLAN

Benefit Contribution Rate	Maximum Cash Benefit	Benefit Contribution Rate	Maximum Cash Benefit
\$.10	\$ 900.00	\$.40	\$3,114.00
.15	1,350.00	.45	3,487.50
.20	1,620.00	.50	3,861.00
.25	1,993.50	.55	4,234.50
.30	2,367.00	.60	4,608.00
.35	2,740.50	.65	4,981.50

^a"Western Conference Pension Plan," pp. 11-12.

The monthly vested retirement benefit from the Western Conference Plan is computed the same as the age retirement benefit, except that the average, rather than the most recent, employer contribution rate is applied to Table 2. After this benefit amount is determined, it is multiplied by a vested retirement factor, shown in Table 5, to arrive at the monthly benefit amount.

As is shown below, the formulas employed by the Intermountain Plan are much less complex than those of the Western Conference Plan for computing benefit payments. Furthermore, the Intermountain Plan formulas generally result in a larger pension receipt than is possible from the Western

Conference Plan's formulas when applied to the same employer contribution rate. It must be noted, however, that the contribution rates do differ between the two plans as well as between the many participating employers within the same plan. An employer's specific contribution rate is determined during negotiation of the union contract. More will be said about employer contribution rates in Chapter III.

TABLE 5^a

VESTED FACTOR FOR COMPUTING MONTHLY TERMINATION BENEFIT
WESTERN CONFERENCE OF TEAMSTERS PENSION PLAN

Age at Break	Vested Factor	Age at Break	Vested Factor
45	50 %	51	80 %
46	55	52	85
47	60	53	90
48	65	54	95
49	70	55	100
50	75		

^a"Western Conference Pension Plan," p. 12.

Chapter III is concerned with the growth of the two plans in terms of employee participation and fund growth. In analyzing fund growth, Chapter III will look at the methods of funding the plans, the actuarial assumptions involved, asset accumulation, fund investments, and benefits paid out.

CHAPTER III

PLAN GROWTH

Employee Participation

In a negotiated multiemployer private pension plan, the growth in employee participation is primarily from additional employers becoming contributors to the plan through the process of collective bargaining.

The number of employees covered under the Intermountain Plan has steadily increased since the plan's inception. When the plan was established in 1966, 27 employers began contributing to the plan's trust fund on behalf of approximately 500 employees. In 1972, there were 4,081 active participants, with 150 employers contributing to the fund. Table 6 shows the active participants, by year, in the Intermountain Plan.

The Western Conference Plan is exceptionally large in terms of the number of employees covered. This plan has had a sustained growth in active plan participants. However, there has been a leveling-off in the number of employees under the plan in recent years. In the first year of the plan, 1,500 employers were making contributions to the trust fund on behalf of 22,000 employees. By 1971, the last

year for which data is available, the plan had some 430,000 active participants, with an average of 19,915 employers contributing to the fund for these employees. The growth in employee coverage under the Western Conference Plan is shown in Table 7.

TABLE 6^a

ACTIVE EMPLOYEE PARTICIPANTS INTERMOUNTAIN
RETAIL FOOD INDUSTRY PENSION PLAN

Year	Employees Covered
1966	500 ^b
1967	1,000 ^b
1968	1,500 ^b
1969	1,942
1970	2,913
1971	4,207
1972	4,801

^aFrancis J. Raucci, interview with Trustee, Great Falls, Montana, March, 1973.

^bApproximate figures.

Fund Growth

The growth of a private pension plan's trust fund is dependent upon a number of factors, each of which can be expected to differ, in varying degrees from one plan to the next. Among these factors are the number of active participants in the plan and the associated employer contribution levels, the rate of return experience from investment of the fund's

assets, and the costs of administering the plan and its trust fund. In addition, the adequacy of projections made today as to future benefit obligations will determine whether the fund is sufficiently capable of meeting these obligations.

TABLE 7^a

ACTIVE EMPLOYEE PARTICIPANTS WESTERN CONFERENCE
OF TEAMSTERS PENSION PLAN

Year	Employees Covered ^b	Year	Employees Covered ^b
1955	22,000	1964	335,000
1956	70,000	1965	341,000
1957	120,000	1966	387,000
1958	159,000	1967	391,000
1959	168,000	1968	410,000
1960	188,000	1969	448,000
1961	197,000	1970	435,000
1962	214,000	1971	430,000
1963	263,000		

^aThe Western Conference of Teamsters Pension Trust Fund, The Western Conference of Teamsters Pension Trust Fund Annual Report (Seattle: Office of the Administrator, 1972), p. 6.

^bFigures rounded to the nearest thousand.

Methods of Funding

The payment of earned benefits under a negotiated private pension plan is provided by a trust fund established for the sole purpose of providing the retirement, death, and termination benefits to covered employees or their survivors. The initial assets of the trust fund are created from participating employers' contributions on behalf of the covered employees. These accumulated contributions are invested to further improve the financial position of the fund. Under current Internal Revenue Service regulations for qualified pension trust funds, which all negotiated pension plans must meet, the investment of assets can be a tremendous source of revenue for the payment of benefits. As the investment income (dividends, interest, and capital gains) is tax-exempt, all investment income is available for immediate reinvestment. Since contribution payments made for the future retiree throughout his period of employment and the income from investment of these payments are continually reinvested, the tax-free investment income alone will pay a substantial portion of the retirement benefits.³¹

The particular procedure for the financial administration of the trust fund is determined by the labor and

³¹Robert I. Mehr and Emerson Commack, Principles of Insurance (Homewood, Illinois: Richard D. Irwin, Inc., 1966), pp. 571-72.

management trustees choice between establishing the pension plan as an insured or noninsured plan.

An insured private pension plan is one in which the trustees enter into some type of annuity contract with a life insurance company for the payment of benefits granted under the plan. In addition, the insurer normally makes all investments of the trust fund's assets, and makes certain guarantees, depending on the type of contract selected, to the trustees.

With a noninsured private pension plan, the trustees assume all risks and responsibility for benefit payments. These payments are made directly from the fund to the recipient. Investment decisions are made either directly by the trustees or by an outside investment service.

The two most common funding vehicles for insured pension plans are the Deferred Group Annuity contract and the Group Deposit Administration contract. Under the Deferred Group Annuity contract, employer contributions are applied as received to purchase annuities for specified employees, with payment of the annuity to the individual deferred until a specified later date. Thus, the employee is guaranteed, while still an active employee, that a retirement income will be forthcoming so long as he meets the requirements of the pension plan. The basic difference between this type of annuity contract and the Group Deposit Administration contract is that annuities under the latter contract are not

purchased until the employee reaches retirement age, or later. Under a basic Group Deposit Administration contract, the insurer receives, holds, and invests the employer contributions, guaranteeing a specified rate of return on investments. When an employee reaches retirement age, or later if specified by the contract, funds sufficient to purchase a monthly annuity for that employee are drawn from the trust fund. Once the annuity has been purchased, the insurance company guarantees the continuing payment of the annuity to the retired employee.³² Until such time as the annuity is purchased, the insurance company is simply providing financial administration and investment services similar to a bank or trust company.

The Deferred Group Annuity contract was the most popular insurance funding method until the early 1960s, when the Group Deposit Administration contract became the more preferred. The increased attention given to the Group Deposit Administration contract was due, at least in part, to the greater flexibility this type of contract gave pension plan trustees in establishing benefit provisions and formulas. Since annuities are not purchased until retirement age or later, a greater variety of payment options can be provided and the contract lends itself to almost any type of benefit formula. In addition, administrative costs can be reduced.

³²Louis W. Illse, Group Insurance and Employee Retirement Plans (New York: Prentice Hall, Inc., 1953), p. 293.

As the insurer will normally maintain individual employee records only for those employees for whom annuities have been purchased, recordkeeping will be simplified and costs held to a minimum.³³ For pension plans with annual deposits in excess of \$10,000, the Group Deposit Administration contract is the most common insurance company funding vehicle in use today.³⁴

The Intermountain Plan is a noninsured private pension plan. Under this arrangement, the trustees have assumed full responsibility for meeting all benefit obligations as they fall due and for investing the fund's assets. Unlike the insured plan, the retired employee has no guarantee that his monthly benefit payments will continue from month to month, but must rely on the ability of the trustees to insure that the trust is adequately funded to meet all future obligations. The trustees have employed Lionel D. Edie and Company to provide the investment services for the trust fund. The decision to establish the Intermountain Plan as a noninsured plan was due primarily to the small size of the plan and the belief by the trustees that a greater return on investments was possible under this structure.³⁵

³³Black, Group Annuities, p. 92.

³⁴Edwin H. Friend, "A 1972 Critique on Funding Media for Pension Plans," The Journal of Accountancy, August, 1972, p. 30.

³⁵Francis J. Raucci, private interview with Trustee, Great Falls, Montana, April, 1973.

The Western Conference Plan is an insured private pension plan. Since the establishment of its trust fund in 1955, the benefits granted under the plan have been funded through a Group Deposit Administration contract negotiated between the trustees and the Prudential Insurance Company of America. Under this annuity contract, all employer contributions, after payment of the expenses of the trustees in administering the plan, are received by Prudential for financial administration. Those assets of the trust fund not paid out for benefits or the purchase of annuities are available for investment by Prudential. Two different investment accounts are maintained for the trust fund. One account is for fixed dollar investments, for which Prudential guarantees a minimum rate of return. Fixed dollar investments, chiefly in bonds and mortgages, are the basic type of investment by life insurance companies. This is in line with the conservative investment practices required of insurers. The trust fund assets in the fixed dollar investment account are comingled, or pooled, with other assets held by Prudential and invested together. Thus, the trust fund shares in the investment return experience of the insurance company. The second account, a "segregated" investment fund, is provided for investments in equities. Prudential selects the particular common stocks in which to invest just as it does with the fixed dollar investment account, but no guaranteed return on investment is made with the segregated

account. This type of account has been employed by insurance companies primarily as a means of meeting the competition from banks and other institutions in obtaining administration agreements for pension trust funds. In view of the overall long-term increase in the value of common stocks, such investments can be expected to appreciate to a greater extent than is normally possible from investments in mortgages and other types of long-term investments.

Among the reasons noted for establishing the Western Conference Plan as an insured plan were the guarantees possible under the Group Deposit Administration contract and to relieve the trustees from direct responsibility for investment decisions.³⁶

Actuarial Assumptions

For a negotiated pension plan, it is the responsibility of the trustees to determine the level of benefits which can be made and to insure that sufficient funds are on hand to meet these obligations as they fall due. To guide the trustees in the management of the trust fund, certain predictions, or actuarial assumptions, of future events must be made. As the trustees do not normally have the time required nor the expertise necessary to produce sound actuarial assumptions, the services of a professional

³⁶Robert H. Gies, telephone interview with Deputy Administrator of trust fund, Seattle, Washington, April, 1973.

actuary are usually obtained for this purpose. Using these assumptions, a periodic valuation can be made to measure the financial soundness of the plan. By comparing the actual experience of the plan with the experience predicted by the actuarial assumptions, the trustees can better discern if the plan can be supported by the current contribution levels and whether the maximum benefits possible are being provided. From this valuation, the trustees are able to determine what adjustments may be necessary in funding levels, benefit levels, or the actuarial assumptions employed. Among the factors involved in projecting potential costs under the plans, and for which actuarial assumptions must be made are:

1. Expenses. These are the administrative costs incurred in managing the plan and its trust fund. These expenses include such items as fees for legal, investment, and actuarial services, and accounting costs. The Intermountain Plan assumes that 5 per cent of employer contributions must be made available to meet administrative costs.³⁷ The Western Conference Plan uses an assumption of 3 per cent.³⁸

2. Interest. The interest, or rate of return, on investments is an important factor in fund growth and a significant determinant of an adequate funding level. The

³⁷"The Pension Plan of the Intermountain Retail Food Industry Pension Trust," Annual Report of the Actuary (Seattle: Johnson and Higgins of Washington, Inc., January 1973), Appendix B, p. v.

³⁸The Western Conference of Teamsters Pension Trust Fund, Annual Report, 1972, p. 7.

Intermountain Plan assumes an annual investment interest rate of 4 1/2 per cent,³⁹ whereas the Western Conference Plan predicts a 5 per cent per year return on investment rate.⁴⁰

3. Mortality and Turnover. Mortality prior to retirement, together with employee termination levels, will determine the number of employees who survive to collect their full benefits under the plan. Post-retirement mortality will also affect the payout rate. Therefore, to provide a basis for estimating future benefit costs, there must be a method for estimating both turnover and mortality. Turnover experience tables and mortality tables have been developed and are used for both plans.

Actuarial assumptions can be expected to vary between industries, trades, geographical areas, and even among actuaries themselves where personal judgment is involved. These assumptions must be periodically re-evaluated. It is not the intention of the writer to judge the reasonableness of the actuarial assumptions used by the two plans, but to merely point out several of the important factors which the trustees must consider in forecasting the future costs of the plans.

Investment Portfolio

As noted previously, return on investment of trust fund assets is a critical determinant of fund growth. Until

³⁹"Pension Plan of the Intermountain Trust," Annual Report of the Actuary, 1973, Appendix B, p. v.

⁴⁰The Western Conference of Teamsters Pension Trust Fund, Annual Report, 1972, p. 7.

recently, the practice of fund managers was to stay basically with the conservative investments in bonds and government securities. To achieve higher returns on their investments, these managers lately have turned more and more to the stock market for investing, particularly in common stocks. For example, only 43 per cent of the assets of noninsured pension plans were invested in common stocks in 1960. The percentage jumped to 55 per cent in 1965, and upward to 68 per cent by 1971.⁴¹ In 1971 alone, the net purchase of common stocks by private pension funds rose from \$4.6 billion to \$8.9 billion. Private pension plans "constitute the country's largest source of institutional capital, with, needless to say, a tremendous impact on the stock market."⁴²

The investment holdings of the Intermountain Plan's trust fund, at the end of 1972, were primarily in stocks. Of the total investments, 56.1 per cent were in common stocks, 7.1 per cent in preferred stocks, and the remaining 36.8 per cent in corporate bonds.⁴³

Prior to 1969, the majority of the trust fund assets of the Western Conference Plan were invested by Prudential in fixed dollar investments. By 1971, approximately

⁴¹"Tighter Rules for Private Pensions--the Outlook Now." U.S. News and World Report, October 2, 1972, p. 61.

⁴²Shirley Scheibla, "Not-So-Private Pensions," Barron's, June 19, 1972, p. 11.

⁴³Investment Summary of Intermountain Retail Food Industry Pension Trust Fund, Lionel D. Edie & Company, Inc., October 31, 1972.

56 per cent of the invested funds were in common stocks. Numerous unsuccessful attempts were made by the writer to obtain, from Prudential, a breakdown of fixed dollar investments. It is known, however, that these investments consist primarily of bonds, real estate, and mortgages.⁴⁴

Asset Accumulation

Since its creation in 1966, the trust fund of the Intermountain Plan has grown substantially. Funded initially from employer contributions alone, these funds have been continually invested to bring added income into the trust fund.

Employer contributions on behalf of covered employees has, of course, been the primary source of growth for the trust fund. The initial employer contribution rate was established at \$.10 per covered hour. The current contribution rate for most areas is \$.15, with a rate of \$.20 in a few areas.⁴⁵ Return on investments is becoming an increasingly important source of revenue. The percentage of total income attributable to investments has increased yearly. In 1972, approximately 21 per cent of the total fund revenue was provided from investments. Trust fund income from all sources is shown in Table 8.

⁴⁴The Western Conference of Teamsters Pension Trust Fund, The Western Conference of Teamsters Pension Trust Fund Annual Report (Seattle: Office of the Administrator, 1970), p. 8.

⁴⁵"Pension Plan of the Intermountain Trust," Annual Report of the Actuary, 1973, Appendix A, p. 1.

TABLE 8^a

TRUST FUND CONTRIBUTIONS AND INCOME INTERMOUNTAIN
RETAIL FOOD INDUSTRY PENSION PLAN
(For Plan Years Ending October 31)

	1967	1968	1969	1970	1971	1972
Employer Contributions	\$157,494	\$190,258	\$288,282	\$352,361	\$701,375	\$ 847,711
Dividends and Interest Income	0	10,726	20,125	36,819	56,970	95,176
Gains on Sales of Securities	0	0	3,986	3,343	33,168	85,567
	\$157,494	\$200,984	\$312,393	\$392,523	\$791,513	\$1,028,454

^aIntermountain Retail Food Industry Pension Trust Fund, financial statements for 1967 through 1972.

The Intermountain Trust maintains a single reserve for future benefits. At the end of the 1972 plan year, the reserve balance was approximately \$2.6 million. The unfunded liability of the trust fund exceeds the assets by \$1.6 million.

The unfunded liability of a trust fund is determined from the difference between the accrued actuarial liability and the actual assets of the trust. The accrued actuarial liability is an estimate of the funds necessary to pay all benefits provided by the pension plan based on accrued past and future service credits of employees participating in the plan. In theory, fund growth through employer contributions and investment income will eventually reach a point where fund assets will equal payout requirements. At such a point, sometimes referred to as "the top of the haystack," the plan will be fully funded.⁴⁶ In practice, however, such a point will not likely be reached so long as the contribution rates and benefits provided continue to increase. The actuary for the Intermountain Plan estimates the trust will be fully funded in another 24 years.⁴⁷ A summary statement of financial condition of the Intermountain Plan is given in Table 9.

⁴⁶Esmond B. Gardner, ed., Pension Fund Investment Management (Homewood, Illinois: Richard D. Irwin, Inc., 1969), p. 27.

⁴⁷"Pension Plan of the Intermountain Trust," Annual Report of the Actuary, 1973, Appendix B, p. v.

TABLE 9^a

SUMMARY STATEMENT OF FINANCIAL CONDITION INTERMOUNTAIN
RETAIL FOOD INDUSTRY PENSION PLAN
(Plan Year Ended October 31)

	1967	1968	1969	1970	1971	1972
<u>Assets</u>						
Cash	\$ 103	\$ 181	\$ 50	\$ 0	\$ 100	\$ 100
Pension Disbursement Checking Account	0	369	1,591	3,569	5,808	7,593
Investment Account	149,253	355,185	619,875	961,319	1,673,612	2,596,836
Other Assets	0	174	64	451	276	102
Total	\$149,356	\$355,909	\$621,580	\$965,339	\$1,679,796	\$2,604,991
<u>Liabilities and Fund Reserve</u>						
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Reserve for Future Benefits	149,356	335,909	621,580	965,339	1,679,796	2,604,991
Total	\$149,356	\$335,909	\$621,580	\$965,339	\$1,679,796	\$2,604,991

^aIntermountain Retail Food Industry Pension Trust Fund, financial statements for 1967 through 1972.

The financial growth of the Western Conference Plan's trust fund has been dramatic since its inception in 1955. Today, this plan ranks among the largest private pension plans in the country. This portion of the study will view the financial growth of this trust fund primarily for the years 1966 through 1971, the last year for which financial data is available.

Employer contributions, the primary income source, has increased an average of 11.8 per cent per year since 1966. The continuing growth in income from this source has resulted from the combination of an increase in the number of employees covered under the plan and a continuing rise in the contribution rates. During 1955, when employer contributions were just over \$1 million, all contributions were at the \$.05 to \$.10 rates. These rates have been continually raised through collective bargaining to where today the majority of the contributions are made at rates of \$.20 or higher. The highest contribution rate currently being accepted by the trust fund is \$.50 per covered hour.⁴⁸ After 1969, when the number of employees covered by the plan began to level off, the continuing growth in income from employers was due to contributions being made at these higher rates. The continuing rise in contribution levels since 1955 can be seen in Figure 2.

⁴⁸The Western Conference of Teamsters Pension Trust Fund, Annual Report, 1972, p. 6.

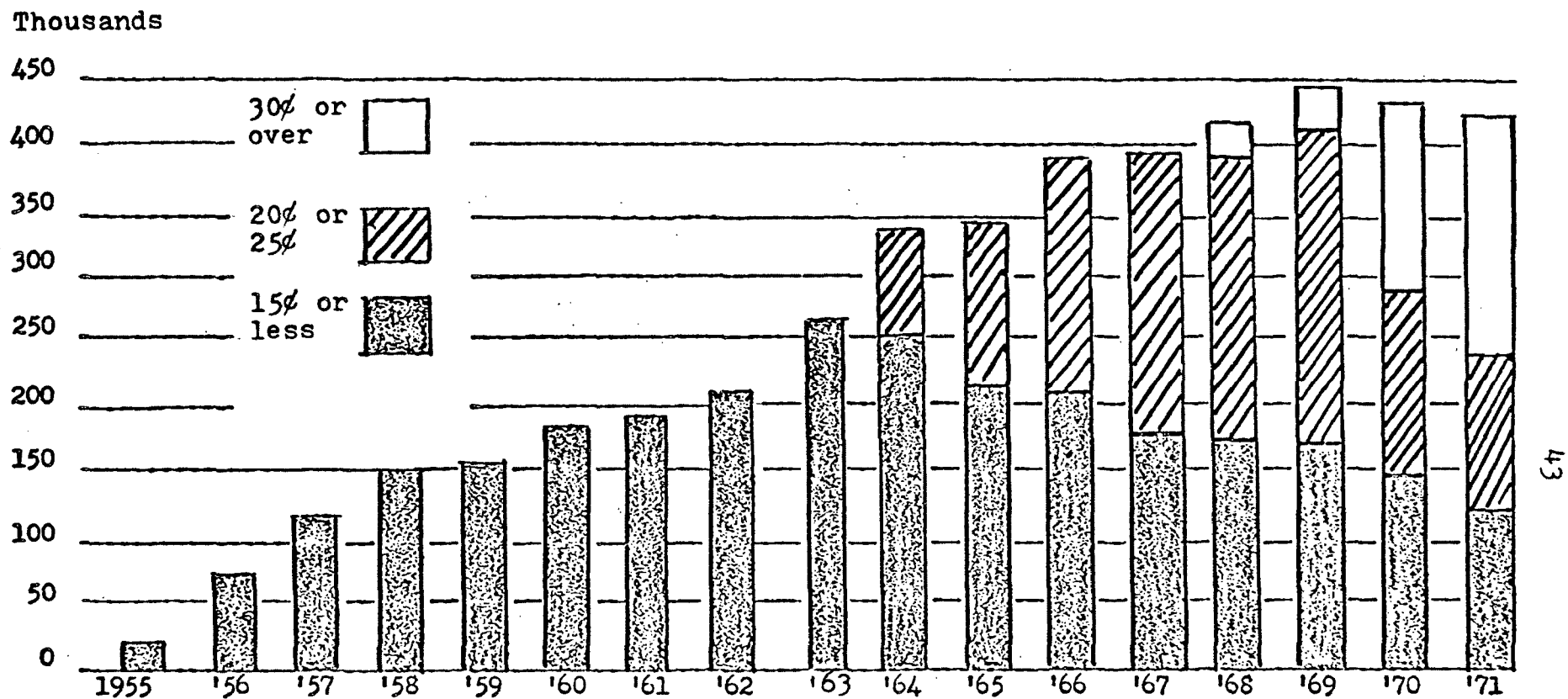


Fig.--Number of employees covered by contribution rate, Western Conference of Teamsters Pension Plan Trust Fund.

Trust fund income from interest and dividends has become an increasingly important source of growth. These income sources now constitute approximately 20 per cent of the total annual income of the trust fund. Total trust fund income from all sources for the period under study is shown in Table 10. Income from fixed dollar investments is recorded as Interest Earned, and represents income based on the guaranteed return on investment rate established by the insurer. This rate is guaranteed on a yearly basis and thus is subject to fluctuation. In 1972, Prudential guaranteed the trust fund a 7 per cent return on investment rate for fixed dollar investments.⁴⁹ The figures shown in Table 10 as Group Annuity Dividends represent income from contract experience. These dividends are primarily comprised of the excess return on fixed dollar investments over the guaranteed return rate. The Segregated Investment Fund Dividends reflect the return on investment in common stocks.

A summary statement of financial condition of the Western Conference Plan's trust fund is shown in Table 11. Of particular note are the two reserves maintained for future benefits. The Active Life fund, with a balance in 1971 in excess of \$422 million is maintained as a reserve for future benefits for active employees. Prior to July 1, 1969, this was the only reserve maintained and all retired and survivor

⁴⁹Robert H. Gies, telephone interview with Deputy Administrator of trust fund, Seattle, Washington, April, 1973.

benefits were paid out of this reserve through the purchase of annuities from Prudential. As of the above date, a second reserve, the Retired and Survivor Non-Purchased Annuities reserve, was established. It then became the policy of the trustees not to purchase annuities for survivors and retirees until they reached age 70.⁵⁰ This decision was made to reduce costs to the fund for payment of premium taxes at the time of annuity purchase. By delaying the purchase, the trustees felt that a savings in tax costs could be realized as the annuity purchase price would be less for a retiree at age 70. Additionally, the delayed purchase allowed these funds to remain in the trust for several more years as investment capital.⁵¹ Thus, all monthly benefit payments payable before age 70 are now paid directly to the recipients by withdrawing such payments from the Active Life reserve. The amount shown in the Retired and Survivors Non-Purchased Annuity reserve is the cost to eventually be incurred for the purchase of annuities for those presently receiving monthly benefit payments from the Active Life reserve. By 1971, the Non-Purchased Annuity reserve was approximately \$298 million.

⁵⁰The Western Conference of Teamsters Pension Trust Fund, Annual Report, 1970, p. 9.

⁵¹Robert H. Gies, telephone interview with Deputy Administrator of trust fund, April, 1973.

TABLE 10^a

TRUST FUND CONTRIBUTIONS AND INCOME WESTERN
CONFERENCE OF TEAMSTERS PENSION PLAN
(For Plan Years Ending December 31)
Figures in Millions

	1966	1967	1968	1969	1970	1971
Employer Contributions	\$74.829	\$ 82.138	\$ 92.230	\$106.548	\$115.220	\$130.646
Interest Earned	10.952	11.171	11.452	10.527	12.945	15.661
Group Annuity Dividends	4.682	9.956	7.055	8.977	10.712	9.105
Segregated Investment Fund Dividends	.928	2.201	4.405	6.288	8.722	10.495
Other	.021	.032	.022	.039	.046	.032
Total	\$91.412	\$105.498	\$115.164	\$132.379	\$147.645	\$165.939

^aThe Western Conference of Teamsters Pension Trust Fund, The Western Conference of Teamsters Pension Trust Fund Annual Report (Seattle: Office of the Administrator, 1966 through 1972).

TABLE 11^a

SUMMARY STATEMENT OF FINANCIAL CONDITION WESTERN
CONFERENCE OF TEAMSTERS PENSION PLAN
(Plan Year Ended December 31)
Figures in Millions

	1966	1967	1968	1969	1970	1971
<u>Assets</u>						
Cash	\$.079	\$.207	\$.067	\$.331	\$.336	\$.084
Contributions Due from Employers	5.920	6.659	7.867	8.837	8.942	10.521
Funds w/Insurer; Funds on Guaranteed Interest	253.099	232.418	212.529	214.903	264.297	313.026
Segregated Invest- ment Account, at Cost (Market Value \$428,260 in 1971)	48.189	110.090	166.470	234.359	315.285	398.702
Other Assets	.010	.004	.017	.023	.024	.016
Total	\$307.297	\$349.378	\$386.950	\$458.453	\$588.904	\$722.349

	1966	1967	1968	1969	1970	1971
<u>Liabilities and Fund Reserves</u>						
Accounts Payable	\$.134	\$.077	\$.100	\$.178	\$.141	\$.174
Accrued Costs of Benefits	4.634	9.159	9.345	.471	1.202	1.750
Reserves for Future Benefits:						
Active Life	302.529	340.142	337.505	406.004	429.779	422.508
Ret. & Survivors Non-Pur. Annuities	0	0	0	51.800	157.782	297.917
Total	\$307.297	\$349.378	\$386.950	\$458.453	\$588.904	\$722.349

^aThe Western Conference of Teamsters Pension Trust Fund, Annual Report, 1966 through 1972.

In addition to the trust fund reserves shown in Table 11, a Retired Life reserve is maintained by Prudential for the annuities already purchased by the trust fund. The balance of this reserve was approximately \$277 million at the end of 1971.⁵² Because of the large amounts of these reserves, the trust fund may appear to be excessively large. However, this is not the case. The unfunded liability of this trust fund far exceeds the assets of the trust.

The actuarial valuation as of December 31, 1968, estimated the unfunded liability of the Western Conference Plan's trust fund to be in excess of \$700 million, and forecasted that this liability would be fully funded in less than 30 years.⁵³ In the latest reported actuarial valuation, one year later, the estimated unfunded liability had increased to over \$1.1 billion, with the theoretical point of being fully funded extended to 37 years. The actuaries noted that any increases in contribution rates and benefit levels would further extend the funding period and increase the unfunded liability.⁵⁴

⁵²The Western Conference of Teamsters Pension Trust Fund, Annual Report, 1972, p. 3.

⁵³The Western Conference of Teamsters Pension Trust Fund, The Western Conference of Teamsters Pension Trust Fund Annual Report (Seattle: Office of the Administrator, 1971) p. 5.

⁵⁴The Western Conference of Teamsters Pension Trust Fund, Annual Report, 1972, p. 3.

Benefits Paid Out

The Intermountain Plan has experienced only a limited outlay for benefits in its short existence. Through 1972, 93 employees had retired under the plan and another 43 recipients were receiving survivor or termination benefits. The average monthly normal retirement benefit payment is currently \$74.00.⁵⁵ This cost can be expected to increase significantly in future years as employees accrue greater credited service time and as contribution rates increase. The total outlay from the trust fund, through 1972, for all benefits was approximately \$151,000.

A breakdown of benefit recipients and the associated costs under the Western Conference Plan is reflected in Table 12. The number of recipients in each category (retirement, death/termination, and survivor) has increased each year since the plan's inception. Through 1971, over 53,000 individuals had received benefits from the plan. The costs of these benefits have also increased yearly, with a total outlay from the trust fund, through 1971, in excess of \$764 million. The largest portion of these costs were, of course, for age retirement benefits. The average outlay for each retirement has increased substantially over the years. In 1957, the average cost of a retirement annuity was \$4,800.

⁵⁵"Pension Plan of the Intermountain Trust," Annual Report of the Actuary, 1973, Appendix D, p. viii.

By 1969, the average cost had risen to \$19,000.⁵⁶ The current cost of a retirement annuity for an employee retiring at age 65, purchased when the retiree reaches age 70, is \$130.00 per dollar of monthly benefit.⁵⁷ This retirement cost can be expected to continue to rise as length of service, contribution rates, and benefits increase.

Having discussed the major provisions and growth of the two pension plans under study, possible future changes to these plans are examined in the next chapter. Proposed Federal legislation to reform and regulate private pension plans, and the possible implications of such legislation on plan structure and operation are discussed in Chapter IV.

⁵⁶The Western Conference of Teamsters Pension Trust Fund, Annual Report, 1970, p. 3.

⁵⁷Robert H. Gies, telephone interview with Deputy Administrator of trust fund, Seattle, Washington, April, 1973.

TABLE 12^a

BENEFIT RECIPIENTS AND COSTS WESTERN
CONFERENCE OF TEAMSTERS PENSION PLAN
(For Plan Years Ending December 31)

	1955-64	1965	1966	1967
Employees Retired Under Plan During Year	11,177	2,325	4,011	3,725
Age 65 or Later	8,090	1,273	2,574	1,616
Before Age 65	2,283	817	1,108	1,648
Disability Retirement	804	235	329	461
Death/Termination Benefits	1,536	452	592	712
Survivor Benefits	0	123	283	389
Total Recipients	12,713	2,900	4,886	4,826
Cost of All Benefits (Figures in Millions)	\$125,155	\$37,638	\$56,646	\$66,644

^aThe Western Conference of Teamsters Pension Trust Fund, Annual Reports, 1966 through 1971.

^bData not available.

TABLE 12--Continued

1968	1969	1970	1971	Total
4,464	4,872	5,575	6,256	42,405
1,860	1,847	b	b	
2,025	2,373	b	b	
579	652	b	b	
832	1,034	1,052	1,064	7,274
536	628	776	777	3,512
5,832	6,534	7,403	8,097	53,139
\$77,409	\$102,134	\$122,076	\$177,000	\$764,702

CHAPTER IV

IMPLICATIONS OF PROPOSED REFORMS

The Push for Reform

As previously noted in Chapter I, Federal legislation of private pension plans is currently minimal. Throughout the tremendous growth period of pension plans since the early 1940s, the system has remained relatively untouched by Federal controls, except for the Welfare and Pension Plan Disclosure Act of 1958, and various Internal Revenue Service rulings.

In recent years, however, the push for Congressional action has been tantamount to a demand that reforms of the current system must be undertaken. The first Federal study on private pension plans began in 1962, after President John F. Kennedy suggested the need for a broad reappraisal of the private pension plan system. Before that study committee's report was ready for public release, the one single event most often cited as evidence of the need for reform had taken place. This event was the closure, in 1963, of the Studebaker-Packard Corporation's automobile production facility in South Bend, Indiana. With the closure was, also, the termination of the company's pension plan, which had been in operation since 1950. Not yet fully funded, the

trust fund was unable to pay all of the vested benefits. As a result, over 4,000 workers between the ages of 40 and 60 received only about 15 per cent of their vested pensions, while hundreds of others were left with nothing.⁵⁸

Since that time, Federal legislators have pressed, with increasing support from within the government, by individual employees, labor unions, and others, to put into law a multitude of proposals to reform and strengthen the private pension plan system, and thus correct the various inadequacies and inequities said by many to exist.

The general attitude of legislators working for reform can possibly be summed up in a remark made by Senator Abraham Ribicoff:

. . . if you remain in good health and stay with the same company until you are 65 years old, and if the company is still in business, and if your department has not been abolished, and if you haven't been laid off for too long a period, and if there is enough money in the fund, and if the money has been prudently managed, you will get a pension.⁵⁹

During the many hearings held by subcommittees in both houses of Congress, testimony of workers has continually told the story of how employees have lost their pension benefits because of layoff, plant closure, mergers, job transfers,

⁵⁸"Pension Reform and the Life Insurance Industry," Best's Review, September, 1971, p. 12.

⁵⁹U.S., Congress, Senate, Senator Ribicoff speaking for the Retirement Income Security for Employees Act, S.4, 93rd Cong., 1st Sess., Jan. 15, 1973, Congressional Record, February 19, 1973, 2714.

improper management, or insufficient funding of their pension plans. Such hearings, together with separate studies made on pension plan operations, tend to produce a picture of countless American workers who have worked under a pension plan for a number of years and anticipated an adequate pension for retirement, suddenly realizing that they will not receive retirement benefits.

Is the private pension plan system really structured and operated as poorly as some would make it appear? While it is true that inadequacies do exist in some pension plans, the development of pension plans and their social contribution has been noteworthy in view of the limited restrictions under which they have operated in the past. The great majority of plans have made significant strides, without governmental direction, in liberalizing vesting requirements, improving benefit options, and increasing benefit levels. Yet, there are those who feel that pension plan managers are not moving fast enough towards protecting and providing pension benefits for a greater percentage of covered employees. These individuals consider Federal legislation to be the best instrument for pension plan improvements.

Though numerous studies have been made, hearings held, commissions formed, and reports written during the last ten years, no private pension reform legislation has yet reached the floors of Congress for a vote. However, the growing demands for some level of increased control over

these plans make legislative action more probable each year. Most Congressional observers now expect initial legislative reform by 1975, at the latest.

Proposed Legislation

Numerous proposals affecting various facets of the private pension plan system have been introduced in Congress in recent years. In 1971, for example, there were nearly forty different Senate and House bills in the hopper that would, in some way, affect pensions.

Currently, three separate legislative proposals are given the best chance of receiving favorable Congressional action, and discussion will be limited to these. Whether the initial reform legislation, if indeed there is to be successful legislation, will result from any single one of these proposals or from a compromise bill is impossible to predict at this time. However, the assumption is made here that any initial legislation on pension plans will be from one of these proposals.

The proposals to be considered here are (1) the Retirement Income Security for Employees Act (S.4), sponsored by Senators Jacob K. Javits and Harrison A. Williams, Jr., (2) the Dent Bills (H.R. 2 and H.R. 462), sponsored by Representative John H. Dent, and (3) the Nixon Administration program.

This chapter looks at three aspects of the proposals--vesting, portability, and plan termination insurance--and

considers the possible implications of these proposals on the current structure and operation of the Intermountain and Western Conference Plans and the pension plan system in general.

Vesting

The vesting of an employee's pension rights is probably the most controversial aspect of pensions. The number of years required for full or partial vesting and the formulas employed vary widely from plan to plan. All three legislative proposals would require a minimum vesting standard aimed at providing maximum protection of an employee's benefits should he lose plan coverage prior to reaching retirement age.

The proposed Retirement Income Security for Employees Act (RISE) would provide for mandatory vesting on a deferred graded basis. An employee's pension rights would become 30 per cent vested after 8 years of service, increasing an additional 10 per cent per year until full vesting was achieved after 15 years of service. The proposal stipulates that this vesting schedule would be retroactive for all employees over the age of 45. For younger workers, the vesting would begin on the effective date of the act. In determining the 8 years required for 30 per cent vesting, the bill provides that no more than 3 of these years need be continuous service. Those pension plans which currently

have alternative vesting schedules which are comparable to this standard would be permitted to retain that method.⁶⁰

Minimum vesting as proposed by the Dent bill (H.R. 2) does not provide for any graduated scale. The vesting schedule is left to the individual plan designers so long as full vesting is achieved within 10 years from the date of coverage under the pension plan.⁶¹

The Nixon Administration proposal for reform, the Individual Retirement Benefit Act, was submitted during the 92nd Congress. Although the Administration has not resubmitted the bill during the current session, it is expected to do so. This bill's vesting proposal, referred to as the "Rule of 50," would require pension plans to establish this vesting method as a condition of qualification for tax-exempt status under Internal Revenue Service regulations. Under the Rule of 50, an employee's pension would be considered 50 per cent vested when the age of the employee plus his years of covered service under the plan equaled 50 years. The rate of vesting would then increase 10 per cent each year thereafter, until full vesting was attained. The Rule of 50 would only apply to workers age 30 or older. The intent of the Rule of 50 is to provide faster full vesting for older

⁶⁰U.S., Congress, Senate, Testimony by Frank Cummings before Senate Labor Subcommittee on Pension Reforms, 93rd Cong., 1st Sess., Congressional Record, February 26, 1973, 3315.

⁶¹Ibid.

employees. To help circumvent the possibility that such an intent might limit the hiring of older workers, the bill imposes a 3 year waiting period on new employees before plan coverage. Additionally, a pension plan would not be required to apply the Rule of 50 standard for any employee hired within 5 years of retirement. No alternative vesting schedule is provided by this legislative proposal.⁶²

Portability

A portability provision is contained in both the RISE and Dent bills, but not in the Administration proposal. The RISE provision would establish a portability program on a purely voluntary participation basis. Under this concept, an employee whose pension plan had established membership in a Federally-administered central portability fund could have the current (discounted) value of his vested benefits transferred to this clearinghouse if he terminated plan participation prior to retirement. If the terminated employee later became covered by another pension plan under new employment, the monies could be paid to the new plan. If not transferred to a new plan, the monies would be applied to purchase a life annuity when the individual reached age 65.⁶³

⁶²Congressional Quarterly Almanac (Washington, D.C.: Congressional Quarterly, Inc., Vol. XXII, 1972), 101A.

⁶³U.S., Congress, Senate, Testimony by Frank Cummings before Senate Labor Subcommittee on Pension Reforms, 93rd Cong., 1st Sess., Congressional Record, February 26, 1973, 3315.

Under the RISE proposal, the decision to join the central portability fund would be retained by the employer (or trustees). The Dent portability provision, contained in H.R. 462, is basically similar to the above proposal. However, it would make the portability feature mandatory for all private pension plans.⁶⁴

Plan Termination Insurance

Both the RISE and Dent bills would provide for insurance to protect an employee's vested benefits in the event the pension plan terminated with insufficient assets to meet all obligations. Again, the two provisions are quite similar in scope. In general, the legislation calls for a Federally-administered plan termination insurance program in which all private pension plans would be susceptible to participation. The costs involved in establishing and administering the program would be funded by the pension plans. The annual premium costs would be based on the individual funding experience of each plan, with the rate being a percentage of the unfunded vested liabilities of the plan. Any plan insured under this program would be required to receive prior authority to terminate from the Secretary of Labor. The amount of insurance to be paid, at time of plan termination, would be the difference between the plan's assets and the unfunded vested liabilities. The

⁶⁴Ibid.

insurance fund would then be entitled to recover, from the employer, a portion of the insurance benefits paid, if the employer was solvent when the plan terminated.⁶⁵

Possible Implications

From a study of these legislative proposals, it is apparent that the current thrust of those proposing pension plan reforms is towards a greater emphasis in the security of benefits, rather than the adequacy of benefits provided. The adequate benefits which are provided under most private pension plans today are often payable only to the modest proportion of employees remaining with a plan long enough to reach retirement age or meet the relatively rigorous vesting requirements often imposed. The adequacy of benefits is really immaterial unless the security of an earned pension is sufficient enough to insure receipt in future years.

What effects might this protective legislation have on the structure and operation of the Intermountain Plan and the Western Conference Plan as they are now constituted?

Effects on Plan Structure

The principal effect on plan structure would be from the proposed mandatory minimum vesting standards. The current vesting requirements of the Intermountain Plan would not meet the minimum standards proposed by RISE or the

⁶⁵Ibid., pp. 3315-16.

Administration's proposal. No change in the method of vesting would be necessary under the Dent proposal, as full vesting is presently established after 10 years of continuous service. This continuous service requirement is one of the two vesting deficiencies in the Intermountain Plan should the RISE Act become law. The plan would have to modify its continuous service requirement. However, such a change is not viewed as very significant for this plan, as the employees covered are not seasonal workers and are not normally susceptible to layoffs which would create breaks in service.⁶⁶ The deferred full vesting method, whereby vesting is deferred until the 10 year point in coverage, would have to be substituted by the deferred graded method specified in the RISE Act. If the Administration's Rule of 50 vesting procedure were selected, a complete change in the current vesting schedule would be required.

Extensive modifications of the Western Conference Plan would be necessary to meet the vesting requirements of all three proposals. The deferred graded method currently used, which requires 15 years of continuous service to become partially vested, with the percentage of vesting based on age at termination, would not be satisfactory. The RISE Act would necessitate a change in the continuous service requirement and deletion of the vesting formula based on age

⁶⁶Francis J. Raucci, interview with Trustee, Great Falls, Montana, April, 1973.

at termination. Extensive vesting changes would also be required to meet the Dent standard and to comply with the Rule of 50 proposed by the Administration.

Effects on Plan Operation

What will be the possible effects from the legislative measures on the operations of the two plans? Certainly there will be some additional monetary costs incurred. But other, non-monetary, costs may be even more significant in the long run. And these latter costs could adversely effect not only the pension plans, but the intended benefit recipients as well.

The greatest monetary costs from legislation will be for the improved vesting. The introduction of any vesting in a private pension plan increases the cost because vesting prevents the forfeiture of all or a portion of the accrued benefits when an employee terminates. The "stiffer the age and service requirements for vesting the less expensive it is to fund the plan, since there is more time for employee turnover to wash out the pension credits before they become obligations."⁶⁷

Various studies have attempted to estimate the cost impact of the several vesting proposals. One of the two studies most frequently cited in literature on proposed

⁶⁷"The Pressure on Pension Funds to Perform," Business Week, September 11, 1971, p. 96.

vesting is an analysis made by a Baltimore actuarial firm for the Senate Labor Committee in 1972. The other study, prepared for the Department of Labor in 1972, was conducted by Howard Winklevoss of the University of Pennsylvania's Wharton School of Finance.⁶⁸ These studies indicate that the costs do not differ significantly between the several proposals. However, the range of increase varies considerably among a number of the studies. The increased vesting costs will vary among plans, depending on the rate of employee turnover, the current vesting schedule used, and the benefit levels. In general, most of the cost studies suggest that the increased costs to the majority of pension plans would range between zero and 8 per cent of current plan costs.

Just what the true monetary costs would be for the mandatory vesting standards is impossible to say at this point. One trustee of the Intermountain Plan estimates that less than 5 per cent of those employees now leaving that plan's coverage without any vested benefits would become vested under the proposed standards, as most employees who terminate do so in the very early years of employment. The additional vesting cost would probably increase employer contribution rates initially by no more than \$.01 per

⁶⁸U.S., Congress, Senate, Testimony by Frank Cummings before Senate Labor Subcommittee on Pension Reforms, 93rd Cong., 1st Sess., Congressional Record, February 26, 1973, 3316-17.

covered hour of work.⁶⁹ The majority of terminations from the Western Conference Plan also occur in the first few years of employment, indicating that earlier vesting would not greatly increase the number of employees vested under that plan. The proposed vesting standards would increase contribution rates by approximately \$.01 per nickle of employer contribution.⁷⁰

Additional costs to the plans would result from mandatory portability and plan termination insurance. Although the writer could not locate any reference as to how the mandatory portability program would be financed, the pension plans themselves would undoubtedly be required to finance at least a portion of the administrative costs involved. The costs for the plan termination insurance program would include a uniform assessment from each plan to cover administrative costs, plus an annual premium cost based on a percentage of each plan's unfunded vested liabilities. For the initial 3 year period, the premium cost for any plan having unfunded vested liabilities would be at a rate of 0.2 per cent of that liability. After the initial period, the premium rates would be based upon experience

⁶⁹Francis J. Raucci, interview with Trustee, Great Falls, Montana, April, 1973.

⁷⁰Phillip Overman, telephone interview with assistant administrator of trust fund, Seattle, Washington, April, 1973.

of the program.⁷¹ What amounts these above costs will be cannot be predicted. Although the proportion of the two plan's unfunded liabilities which is vested is unknown to the writer, the initial premium costs could be quite sizeable for a plan as large as the Western Conference Plan. If, for example, 50 per cent of that plan's currently unfunded liability was assumed to be vested, an annual premium rate of 0.2 per cent could cost the plan over \$1 million per year. The establishment of mandatory minimum vesting would likely contribute to the premium cost for termination insurance. For example, the Rule of 50 proposal and the provision in the RISE Act for retroactive vesting for employees over age 45 make it conceivable that some employees would become partially or fully vested almost immediately. This would probably increase the vested portion of the unfunded liabilities, which, in turn, would increase the premium cost for termination insurance.

How will the added costs from legislated improved vesting, mandatory portability, and plan termination insurance be supported by the pension plans? Will these costs be covered through an increase in contribution rates with the same benefits provided, or a reduction in benefit levels? Both the Intermountain Plan and the Western Conference Plan

⁷¹U.S., Congress, Senate, Summary of Major Provisions of Retirement Income Security for Employees Act, 92d Cong., 1st Sess. Congressional Record, May 25, 1972, 8431.

foresee the added costs being supported by increased contribution rates, with no direct reduction in benefit levels. However, the end result may well be that the added costs will still be absorbed by the employees. The increased costs for employers may very likely mean that future pension benefit levels will not rise as much as they would if the added costs from legislation were not present. Additionally, a pension is but one part of the package of "fringe" benefits normally negotiated in collective bargaining. An increased outlay for pensions could result in fewer improvements in other employee benefit programs, such as dental care and health and welfare plans.

A pension plan operating under the Rule of 50 vesting proposal could be discriminatory towards the older worker. Although some safeguards against such action are contained in the proposal, the incentive to hire younger workers would still be present. For example, an employee hired at age 20 would not become covered by the plan until age 30, and would not become partially vested until age 40. Thus, why employ the older worker and quickly incur a benefit obligation? Assuming that the young employee moves on to other employment prior to age 40, the Rule of 50 would also tend to place the full burden of benefit payments on later employers, as no vesting would be achieved in the earlier years.

Another area of concern is that these proposals may not really be necessary for all pension plans, yet no exceptions are made. Thus some plans may be incurring added

costs for something neither needed nor desired. For instance, is plan termination insurance really necessary for a multiemployer plan? Such a program is more applicable to the single employer plan which would be more likely to terminate if the sponsoring employer became insolvent, transferred operations, or the like. A multiemployer plan is not likely to be terminated if one, or even a few, participating employers should cease to exist. Even a big investment loss would not necessarily mean that the fund could not recover.

Another aspect of the proposals which may be unnecessary is mandatory portability. If a plan provides for the vesting of benefits, what real need is there for a portability program? The transfer of pension assets from plan to plan over a number of years could become an administrative nightmare. These benefits could just as well be held by the original trust fund for future payment. For multiemployer plans, it seems that an expansion of the reciprocity concept between compatible plans would be the better approach. The Nixon Administration, which is opposed to portability, feels that "a portability system would inevitably be towards a uniformity among all pension plans . . . [and] therefore is a movement towards converting the private pension system into a uniform nationalized social security system."⁷²

⁷²Davey and Meyer, "More Regulation for Pension Funds?," The Conference Board Record, July, 1972, p. 15.

The greatest area of concern over pension legislation appears to be the distinct possibility that this will be but the first step by the Federal government in dictating the operations of pension plans. Having seen other aspects of private industry become increasingly regulated, pension proponents fear that mandatory controls through legislation will tend to reduce the flexibility and individuality of private pension plans.

How might this come about? Mandatory minimum vesting is a start. Portability, as mentioned above, might possibly lead to legislated uniform benefits for all plans to ease the transfer of pension assets. The calculations of premiums for plan termination insurance may lead to further government involvement. Each plan has its own unique set of funding.⁷³ Will future legislation also mandate uniform Federal standards for pension plan actuaries?

Whether or not such concern about future legislation is valid remains to be seen. The public has a right to expect private pension plans to be operated fairly and honestly, and legislation to insure this is appropriate. But if the private pension plan idea is to survive and prosper, the trustees must retain the right and responsibility to develop and improve their individual plan in a manner that best meets both the abilities of the employers and the needs of the employees.

⁷³"Insuring Pension Plans," Forbes, November 15, 1972, p. 23.

CHAPTER V

SUMMARY

Conclusion

From this study, it is quite evident that both the Intermountain Retail Food Industry Pension Plan and the Western Conference of Teamsters Pension Plan have made tremendous strides in the relatively short periods of their operation. The continual addition of more participating employers has greatly increased the number of covered employees and potential benefit recipients. Rising employer contribution rates, coupled with the continual reinvestment of this income, have produced substantial assets in both plans' trust funds. However, the unfunded liabilities far exceed the trusts' assets. The trustees of both plans will continue to bear a heavy responsibility to provide improved benefits and yet maintain the financial soundness required to assure the payment of future benefits.

Some liberalization of the requirements for pension receipt have already been made by the plans. Also, the establishment of reciprocity agreements enables some employee mobility now without loss of pension credits. Further improvements in these areas can be expected as the plans

mature. Whether or not such improvements will be legislated by Congress remains to be seen, but the indications strongly suggest that the first steps toward pension reform will soon be taken.

Whether the proposed legislation and its possible implications will occur as discussed in Chapter IV is difficult to predict. In the final analysis, one may find that there has been a tendency to exaggerate the impact of increased government involvement in private pension plan operations. However, avoidance of new and enlarged government controls will depend to a great extent on the trustees own performance in establishing self-regulation, and providing the best possible benefits and the greatest possible security.

Recommendations for Further Research

If pension plan reform legislation does become a reality, an additional study may be of interest to determine the true impact of such legislation on these plans. Such a study should evaluate the changes made to the plans and the actual effects on plan operation. In addition, consideration should be given to whether the legislation hampered the growth of the private pension plan system or strengthened the system, as intended.

APPENDIX

Figures 1 through 3 illustrate the current methods of computing benefits from the Intermountain Plan and the Western Conference of Teamsters Plan under various situations.

Situation: Suppose Jim Jones was 40 years old when he came under plan coverage. Prior to that time he had accumulated 15 years of past service credit. He worked 2,080 hours per year until retirement at age 65. The employer contribution rate at retirement date was 20¢ per covered hour. His monthly retirement benefit would be computed as follows:

<u>Intermountain Plan</u>	<u>Western Conference Plan</u>
Past Service: 15 yrs x \$4.25/yr = \$ 63.75	Past Service: 15 yrs credit
Future Service: 2,080 hrs x 25 yrs = 52,000 hrs	Future Service: 2,080 hrs x 25 yrs = 52,000 hrs
52,000 x 20¢ = \$10,400 Jones would receive 2.30% of this amount each month = <u>239.20</u>	52,000 ÷ 1,875 hrs = 27 yrs credit
Monthly pension benefit = <u>\$302.95</u>	Total service credit is 42 yrs Maximum credit is 25 yrs
	Benefit per yr of credit at 20¢ rate is \$7.20 x 25 yrs
	Monthly pension benefit = <u>\$180.00</u>

Fig. 1.--Illustration of computations to determine monthly retirement benefits upon retirement at age 65.

Situation: Suppose the same Jim Jones had decided to retire early at age 60. Again assume 15 years of past service credit and 2,080 covered hours per year until retirement. Employer contribution rate at retirement date was 20¢ per covered hour. His monthly early retirement benefit would be computed as follows:

<u>Intermountain Plan</u>	<u>Western Conference Plan</u>
Past Service: 15 yrs x \$4.25/yr = \$ 63.75	Past Service: 15 yrs credit
Future Service: 2,080 hrs x 20 yrs = 41,600 hrs	Future Service: 2,080 hrs x 20 yrs = 41,600 hrs
41,600 x 20¢ = \$8,320 2.30% of this amount each month = <u>191.36</u> \$255.11	41,600 ÷ 1,875 hrs = 22 yrs credit.
Applying reduction factor of 1/2 of 1% for each month Jones is retiring early means a 30% reduction <u>x 70%</u>	Total service credit is 37 yrs Maximum credit is 25 yrs Normal benefit per yr of credit at 20¢ rate is \$7.20 x 25 yrs = \$180.00
Monthly pension benefit <u>\$178.58</u>	Apply early retirement factor from Table A for age 60: 85.6%
	Monthly pension benefit = <u>\$154.08</u>

Fig. 2.--Illustration of computations to determine monthly retirement benefits upon early retirement at age 60.

Situation: Suppose Bill Smith came under plan coverage at age 30 with no past service credit. After working 15 years at 2,080 hours per year, he terminates his participation in the plan. Assume an employer contribution rate of 15¢ for the Intermountain Plan and an average contribution rate of 15¢ for the Western Conference Plan. Smith's monthly vested benefit would be computed as follows:

<u>Intermountain Plan</u>	<u>Western Conference Plan</u>
Past Service: none	Past Service: none
Future Service: 2,080 hrs x 15 yrs = 31,200 x 15¢ = \$ 4,680	Future Service: 2,080 hrs x 15 yrs = = 31,200 hrs
Smith would receive 2.30% of this amount per month x <u>2.30%</u>	31,200 ÷ 1,875 hrs = 16 yrs credit
Monthly vested retirement benefit beginning at age 65 <u>\$107.64</u>	Normal benefit per yr of credit at average rate of 15¢ ix \$6.00 x 16 = \$96.00
	Applying vested factor of 50% for age 45 gives monthly vested retirement benefit beginning at age 65 = <u>\$48.00</u>

Fig.3.--Illustration of computations to determine monthly vested retirement benefits after termination from plan.

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